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The President's Daily Brief

December 21, 1974

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IRAN

The Shah warned Western governments Thursday that any increase in the price of gold would result in a sharp increase in oil prices. The Shah's comments reflect the widespread concern of high-level officials in oil-exporting countries about inflation in the West.

The Shah apparently is apprehensive that the Martinique decision to allow countries to value official gold holdings at free-market prices would cause the value of the world's currencies, especially the dollar, to decline. He believes such a decline would erode the purchasing power of Iran's earnings from oil, particularly because the price of oil is generally expressed in terms of dollars, and would threaten his ambitious industrialization, development, and armament programs.

The Shah's concern over the relationship between the purchasing power of oil earnings and the price of gold is unwarranted. The purchasing power of Iran's earnings is determined by the relationship of the dollar to other currencies and the price of the goods and services Iran imports, not by the price of gold.

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FRANCE - MIDDLE EAST

Prime Minister Jacques Chirac arrives in Iran today in the latest of a series of French high-level visits to the oil-exporting countries.

The French diplomatic and economic offensive in the Middle East is aimed primarily at securing contracts and loans to offset the substantial balance-of-payments deficit Paris expects to incur this year. France also hopes to reinforce the image it has carefully nurtured of being the Arabs' champion in Western Europe and to win support for the tripartite energy conference proposed by President Giscard and now backed by the EC and the US. So far, Paris has reason to be pleased with the results of its bilateral diplomacy.

In Tehran, Chirac is expected to put the finishing touches on a major industrial cooperation program initiated last June. It will include up to five nuclear power stations, a nuclear research and experimental center, and, possibly, advanced fast-breeder technology plants and nuclear-propelled submarines for the Iranian navy. Iran will deposit $1 billion as an advance payment for development projects amounting to $5 billion over the next ten years. Tehran has already given its backing to the tripartite energy conference.

Earlier this month, the French Prime Minister was in Iraq, a visit that was treated by the Iraqis as one of the major political events of the year. Chirac received Iraqi endorsement of Giscard's tripartite conference and substantial economic sales agreements.

In addition to Chirac's travels, Interior Minister Michel Poniatowski visited Algeria in early December to prepare the way for Giscard's planned visit next March. Algeria did not oppose the tripartite conference in principle, but stressed its desire to include other raw materials on the agenda. Poniatowski conceded that France might be willing to consider this.

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French Secretary of State for Foreign Commerce Norbert Segard in mid-December led a trade mission to Qatar, where France was offered a $150-million loan. The loan--which may be the largest single Qatari loan ever granted--was offered, at least in part, as a reward to France for its pro-Arab policy.

Foreign Minister Jean Sauvagnargues began a five-day visit to Cairo on December 19. He is expected to brief the Egyptians on the recent EC summit and energy problems. The Arab-EC dialogue--currently bogged down over the question of PLO representation--also will be discussed.

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WEST GERMANY

Chancellor Schmidt's modest anti-recessionary program is designed to assure 2 percent real growth next year while keeping inflation at 6 percent or less.

The main features of the program include:

--A 7.5-percent tax rebate on investments initiated from December 1 through June 30, 1975.

--Rescheduling of a large share of government investment planned for 1975 into the first half of the year.

--New public works spending totaling $450 million financed by countercyclical funds built up during earlier booms.

--Subsidy payments totaling $240 million to increase employment.

--Allocation of $1.4 billion in countercyclical funds to finance budget deficits at the federal and local level, a measure aimed at reducing inflation, rather than stimulating the economy, as the funds were originally intended.

These measures will add at most $1 billion to the spending stream next year. In addition, a long-scheduled tax reform will boost consumers' disposable income by $6 billion.

The key element of the antirecession program is the tax rebate, which is designed to revive private investment. Schmidt hopes that limiting the rebate period to seven months will encourage businessmen to invest now.

Schmidt's concern over rising unemployment and the economic downturn at home and abroad prompted him to take these steps. German unemployment is expected to exceed one million this winter. The Chancellor hopes his program will speed the recovery as well as minimize the economic decline. If successful, this would enhance the election chances of his party in a series of state elections next year.

The program will do little to reduce the large trade surpluses West Germany is running with the other EC members.

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CYPRUS

Negotiators for the Greek and Turkish Cypriot communities yesterday agreed on all but one of the points that have stood in the way of political negotiations on the Cyprus problem. According to a source of the US embassy in Nicosia, the point still in dispute relates to the question of which governments will guarantee the final settlement.

Turkish Cypriot negotiator Denktash, under instructions from Ankara, insisted that any agreement on constitutional issues should be endorsed by a five-party conference consisting of Greece, Turkey, the UK, and the leaders of the two Cypriot communities. Greek Cypriot negotiator Clerides claimed to have no instructions on the matter. President Makarios has recently indicated a preference for adding to the number of guarantors, possibly to include some or all permanent members of the UN Security Council.

The two negotiators agreed that talks on a federal government for Cyprus should begin on January 6. The UN representative on Cyprus is optimistic that the question of who will guarantee the settlement can be resolved by then.

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NOTES

Egypt: The Egyptians have been dissatisfied with their eight Soviet TU-154 civil aircraft--the only ones held outside the Communist world--since they were delivered last year, and the Egyptian national airline has signed a letter of intent to buy six McDonnell-Douglas DC-9-50s. Three older DC-9s will be leased until deliveries of the new aircraft are completed in 1976. Egyptian airline personnel have complained about high operating costs, technical problems, and the shortage of spare parts for the TU-154. At one point, Cairo made an unsuccessful attempt to return them to the Soviet Union.

Libya: An investment council is being organized to increase Libya's long-term investments abroad. Libya now accumulates almost all of its surplus oil earnings as foreign exchange reserves--now at $3.8 billion--which are placed in short-term obligations. The new investment council may begin functioning in March. One of its four directors, who is head of the rapidly emerging Libyan-Arab Foreign Bank, is an advocate of long-term investments abroad.

Burma: Martial law remains in effect, but the military presence in Rangoon has been reduced and most normal business activity has resumed. Although the immediate crisis has passed, tensions are not far below the surface and renewed disturbances are possible at any time. The government's decision to keep in custody several thousand students--some the children of government officials--and some Buddhist monks could encourage further discontent. The government has announced that a special session of the People's Assembly--its rubber-stamp legislature--will be held next month, apparently to deal with problems resulting from the riots.

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Latin America: Several of the most nationalistic governments of Latin America, including Peru and Venezuela, are concerned about some of the provisions of the Trade Bill passed by Congress yesterday. To these governments, the troublesome parts of the bill are those that would deny trade preferences to members of cartels that raise prices on vital commodities, and governments nationalizing US property in violation of international law. A special committee of the Organization of American States has presented to the US ambassador at the OAS a declaration asserting that these articles could lead to a "de facto inoperativeness" of the new dialogue between the US and Latin America.

Ethiopia: There probably will be much debate--and delay--before the ruling military council decides how to implement the philosophy of "socialism" it announced yesterday. This move, intended to identify Ethiopia with other African states and emphasize the government's sharp break with the past, does not appear to presage any sudden shift in foreign policy. Senior officials have stressed that the council wants to maintain close and friendly relations with the US.

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